

# Realty Trust Review

February 10, 1975

VOL. VI, No. 3

## VALUE GUIDE TO TRUSTS REVIEWED THIS ISSUE

| Trust             | Rel.<br>Appeal | Port.<br>Yield | -12Mo.Port.<br>Last | Chng.-<br>E.Next | Lever.<br>Ratio | Price  | Ann.<br>Yield* | Div.<br>Reinv. | Page |
|-------------------|----------------|----------------|---------------------|------------------|-----------------|--------|----------------|----------------|------|
| Cont'l Ill. Prop. | 3              | 11.83%         | 9%                  | 0%               | 0.77            | \$8.38 | 15.3%          | No             | 6    |
| New Plan Rlty.    | 2              | 21.35          | 10                  | 0                | 1.15            | 12.25  | 13.7           | No             | 6    |
| Property Capital  | 3              | 11.79          | 6                   | 0                | 0.67            | 8.13   | 12.8           | No             | 8    |
| U.S. Realty       | 4              | 11.24          | 1                   | -3               | 2.90            | 4.88   | 16.4           | Yes            | 7    |
| AVERAGE           |                | 14.05%         | 6.5%                | 0%               | 1.37            |        | 14.6%          |                |      |

\* Based on annualized latest qtr.

MORE REIT BANKRUPTCIES: Count on it unless banks face up to some harsh realities....1

*Your editor will appear on the national TV show WALL STREET WEEK on Feb. 21 to answer questions from a panel about real estate and housing securities. The program is shown in most areas on public educational television channels at 8:30 p.m. EST (7:30 p.m. CST) but is shown in some areas on a delayed basis. Check your local TV listing.*

## MORE REIT BANKRUPTCIES? COUNT ON IT UNLESS BANKS FACE UP TO SOME HARSH REALITIES

There's an Old West tale about the mule-skinner who had to hit his mule in the head with a crowbar--just to get its attention. The Jan. 30 Chapter XI bankruptcy filing by Fidelity Mortgage Investors falls in that category: something had to be done to get the attention of banks and the largest Chapter XI filing yet by a REIT was the only way.

The way it came about is classic Keystone Kops comedy--except nobody's laughing. Last November Fidelity advised the 65 banks providing \$147.2 million in a revolving credit agreement that they would be unable to continue paying interest at 130% of the prime rate. The trust would have break-even cash flow at 2% interest rate, banks were advised, and the trust suggested moving the interest rate sharply below prime, with no interest payable in cash currently. Between November and January the trust believed Chase Manhattan, agent bank for the syndicate, was making progress in getting its point across to the other banks. But when a meeting of member banks was convened Jan. 30, one day before the revolving credit was to expire, it became clear to trust managers that not nearly enough banks were going to go along with sharply lower interest rates. Some wanted even higher interest, we are told.

At about 2:30 p.m., trust managers and trustees excused themselves and held a quick conference call with all other trustees. Their verdict: trustees felt their personal liability would escalate if they permitted the revolving credit agreement to expire without an extension and ordered a Chapter XI filing. The order was relayed to an attorney standing by at Federal Bankruptcy Court and the petition was filed 15 minutes before closing.

The banks were in total disarray during the meeting, one source close to the session tells us. "Never have so many people talked so irresponsibly about such large sums,"

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says another. At stake were Fidelity's \$206 million assets and \$182.4 million liabilities, including \$41 million in term loans, \$2.7 million in subordinated convertible debentures, and about \$137 million drawn down under the revolving credit.

A year ago Fidelity had been the first REIT to become so pressed for cash that it was forced into a highly-restrictive revolving credit agreement. It is also the first major revolver (which REIT managers call loaded revolvers) to come up for renewal. In the intervening year another 30 revolvers have been signed totaling \$5.0 billion. Nearly all will expire during 1975, as shown on page 3. An additional 12 to 20 trusts are believed negotiating revolvers with perhaps another \$1½-2 billion in bank debt involved. In our last issue we sent you a special bonus rundown of the deep concern running through both banking and REIT industries over the fate of these revolvers. In particular we noted a pattern of chronic defaults by several REITs, exacerbated in part by very tight restriction on what REITs can and cannot do. Banks view these restrictions as monitoring devices but they guarantee in effect that the revolvers will be in default within months after signing. We expressed concern about how bank auditors and examiners would treat these chronic defaults and feared that REIT illiquidity was likely to spill over onto their banks, possibly reducing earnings.

The Fidelity bankruptcy escalates both the saber rattling between both parties and the risks to everyone. The most serious question for shareholders is whether Fidelity's filing will precipitate a rash of additional Chapter XI filings by REITs as 1975 unfolds in a slow-motion domino effect, or whether the event will force banks to face some very harsh realities about their REIT revolvers. The answer is found in these facts and trends:

1. Current REIT revolvers are essentially documents of unconditional surrender that sooner or later will kill all REITs struggling under them. We have read several loan documents cover to cover and reviewed nearly 20 in detail (nearly all are filed with the SEC by the REITs). All are marvels of legal drafting, running for 50 pages or more and suitable for legal textbooks. Nearly all contain these common points: a) Dividends are permitted only annually when final earnings are audited (Justice Mortgage's revolver requires the trust to delay paying dividends for a year after the end of its September 1975 fiscal year); b) nearly all restrict new loan commitments or permit them only when leverage ratios have been sharply reduced; c) leverage ratios are to be reduced from present levels, the specific ratios varying widely. Nearly all require REITs to cease interest accrual on loans 60 or 90 days delinquent, do not permit REITs to exceed fixed percentages of non-earning loans to total investments, and require shareholders' equity to be maintained at certain amounts.

Interest charges vary widely, with the favorite being 130% of prime rate (or an effective 11.7% at today's 9% prime -- the effective rate was 15.6% when prime was at 12%). But the summary shows there are several variations with compensating balances which work out to slightly different effective rates. The REITs generally pay ½% annual fee on unused balances and 1/10% for servicing by the agent bank.

The combination of high interest rates and inability to make new commitments mean several things to REITs and their shareholders: a) Very few trusts can pay the interest rate, especially with heavy volumes of non-earning loans. For many highly leveraged trusts the high rates mean all shareholders' equity will be transferred to the banks in the form of interest within about two years, unless real estate market conditions change markedly; and b) During that time the good loans will be repaid while the sour loans remain on the books, bringing the REITs into continual default on their percentage of delinquent investments requirements. Faced with no effective movement away from these key terms, the Fidelity trustees acted in the belief that Chapter XI was the only way to preserve the \$24 million book value.



## REIT REVOLVING CREDIT AGREEMENTS

| Trust             | -Bank lenders-<br>Agent (Number) | Amount<br>(Mil.\$) | Interest--Comp.bal. Effec.<br>(% of prime) rate# | Expires *           |
|-------------------|----------------------------------|--------------------|--------------------------------------------------|---------------------|
| Alison Mtg.       | FNCB, NYC (19)                   | \$121.0            | 125% -- None                                     | 11.25% Mar. 1, '76  |
| Atlanta Nat. RE   | Chemical (16)                    | 19.2               | 120 -- 10%                                       | 12.0 Jan. 31, '77## |
| Builders Inv.     | FNCB, Fir. Chic. (49)            | 310.6              | 120 & 130 -- None                                | 10.8-11.7 July 31   |
| Cameron-Brown     | Mfgrs. Han. (30)                 | 88.1               | ½% OP -- 10%+10%                                 | 11.9 Aug. 15        |
| " "               | FNCB (4) (Term loan)             | 39.1               | 125 -- None                                      | 11.25 "             |
| Chase Man. Tr.    | Chem., Cont. Ill. (41)           | 700.0              | 117 -- 10%                                       | 11.7 Dec. 31        |
| Cit. & So. Rl.    | NA-Domestic & Foreign            | 399.0F             | 130 -- None                                      | 11.7 Jan. 2, '76    |
| Cit. Growth       | NR - (9)                         | 10.9               | 130 -- None                                      | 11.7 Aug. 15        |
| Citizens Mtg.     | First Chic. (13)                 | 106.2              | 117 -- 10%                                       | 11.7 July 31        |
| Cont.Mtg.Inv.     | Bankers Trust (86)               | 610.0F             | 130 -- None                                      | 11.7 Dec. 1         |
| Cousins M&E       | Cont. Ill. (25)                  | 175.4              | 117 -- 10%                                       | 11.7 Dec. 31        |
| Diver. Mtg.       | NR (42)                          | 33.0S              | 130 -- None                                      | 11.7 June 30        |
| Fidelity Mtg.     | Chase Man. (65)                  | 147.2              | 130 -- None                                      | 11.7 Jan. 31        |
| First Mtg. Inv.   | Chemical (100)                   | 400.0              | 130 -- None                                      | 11.7 Aug. 31        |
| First Penn. Mtg.  | Mfgrs. Han. (12)                 | 117.5              | 130 -- None                                      | 11.7 Nov. 30        |
| Grt. Amer. Mtg.   | FNCB, Fir. Chic. (70)            | 271.0              | 117 -- 10%                                       | 11.7 Aug. 1         |
| Guardian Mtg.     | Chase, FNCB (E40)                | 355.0              | 130 -- None**                                    | 11.7 Jan. 6, '76    |
| Gulf Mtg. & Rl.   | Mfgrs. Han. (33)                 | 86.9               | 115 -- 10%                                       | 11.4 Nov. 30        |
| Hamilton Inv.     | Mfgrs. Han. (27)                 | 90.0               | 130 -- None                                      | 11.7 June 30        |
| HNC Mtg.          | NR                               | 89.0               | ¼% OP -- 10%+10%                                 | 11.6 Dec. 31, '74   |
| Insti. Investor   | Nat.City, Cleve. (NR)            | 52.5               | 129 -- None                                      | 11.6 Nov. 19        |
| Independence MI   | FNCB (3) (Revolv.&term)          | 85.5               | 112% of 1% OP                                    | 10.1 Mar. 31, '79   |
| Justice Mtg.      | Fir. Nat., Dallas (13)           | 42.6               | 9.9%                                             | 9.9 Dec. 31         |
| KMC Mtg. Inv.     | NR                               | 23.1               | 117 to 127                                       | NC Oct. 31          |
| Midland Mtg.      | FNCB (23)                        | 102.0              | 130 -- None**                                    | 11.7 NR             |
| Nat. Mtg. Fund    | FNCB (26)                        | 50.2S              | 130 -- None                                      | 11.7 July 29        |
| NJB Prime Inv.    | Cont. Ill. (10)                  | 54.2               | 130 -- None                                      | 11.7 Mar. 31        |
| Northwestern Fin. | Mfgrs. Han. (11)                 | 38.0               | ¼% - 3/4% OP**                                   | NC Aug. 31          |
| Republic Mtg.     | FNCB, Chem. (32)                 | 41.7               | 120 -- 10%**                                     | 12.0 June 15        |
| Security Mtg.     | Chemical (20)                    | 80.6               | 127½% -- None**                                  | 11.5 Nov. 15        |
| Tri-South Mtg.    | Mfgrs. Han. (26)                 | 172.5F             | 130 -- None                                      | 11.7 Nov. 30        |
| UMET Trust        | Bankers Tr. (33)                 | 116.4              | 123% -- None**                                   | 11.1 Jul.-Oct. 31   |
| TOTAL (31)        |                                  | \$5,028.4          |                                                  |                     |

# Based on 9% prime rate. \* Expires 1975 unless noted. ## Expired Jan. 31, 1975  
and banks requiring full repayment in two years. S - Secured by pledge of mortgages.  
F - Includes Eurodollar. NR - Not reported or available. NC - Not calculated.  
OP - Over prime.

\*\* Details: Northwestern Fin.: ¼% OP if 66% used; ½% OP if below 75% used; ¾% OP if over 75% used. Republic: Optional as follows: 120% at 10% comp. balances; 125% at 5% comp.; 130% at no comp. balance. Midland and Guardian: Agreed in principle but not yet signed. Security: 127½% on first \$58.1M; 127½% of London Interbank rate on \$12.5M; 127½% of prime plus 1% on \$10M. UMET Trust: \$27.8M of "variable credit" is repayable July 31, 1975; \$88.6M of "term credit" becomes due in 8 quarterly installments on Oct. 31, 1975. Interest base increases to ¼% over prime at July 31, 1975 and ½% over prime on July 31, 1976.



The only hopeful sign we've noted is recent preliminary agreement for Great American Mortgage to pay interest at the prime rate, and to defer the interest during the loan life, paying later in cash, or in notes or some other form of paper. Proxy solicitation of its subordinated debt holders will be required before the agreement can become final. Such renegotiation of revolvers before their expiration is quite possible for many other REITs, especially those under greatest pressure, but the Fidelity experience suggests that the expiration dates are the most crucial time to watch, because that's when smaller banks can try to bolt and the revolver possibly fall apart. And it suggests that the more banks in the revolver, the more difficulty REITs may have in getting extensions on favorable terms. The table on page 3 summarizes basic information about revolvers already signed.

Non-hopeful signs include continuing defaults under several revolvers. Great American Mtg. has not made Dec. 1 and Jan. 1 interest payments of \$5.76 million on its \$271M revolving credit, nor has it paid another \$1.1 million due on \$56M term and Euro-dollar borrowings. As noted last issue First Mortgage has deferred paying \$15.6 million interest due on its \$400M revolver. And two banks which put \$4 million into that line say they will sue FMI to get their money back. NJB Prime Investors is in default on its revolver which comes up for renewal March 31, and the American Stock Exchange has held up trading in its shares pending resolution of its difficulties; an announcement is expected soon. Chase Manhattan Trust has reached borrowing limits and may sell assets.

REIT revolvers can thus be summed up in medical fashion: The operation was a success but the patient died. The big banks did indeed rescue the REITs from bankruptcy in 1974 but the rescue was so complex and restrictive that the patient may die.

2. Chapter XI bankruptcies may be favorable for REIT shareholders--especially if independent trustees decide they are the only way to preserve shareholders' equity. The Fidelity filing was precipitated in part by the success of Associated Mortgage Investors, a \$63 million REIT which filed Chapter XI last March. Associated filed its plan of arrangement with creditors Jan. 8 and proposed paying its banks about \$39.2 million over the next few years but wiping out interest from the date of filing. Holders of \$10 million subordinate debentures sold to the public would receive principal over several years plus a 5% adjustment for accrued interest. All payments are contingent upon cash flow being realized from sale of properties, but the trust has built up \$9 million cash since last March, including about \$7 million representing interest. The creditors' committee has approved the plan but all creditors still must approve.

Associated's relatively quick filing of a plan and the hope that cessation of bank interest may possibly leave a tiny bit left for shareholders are sparking a new interest in Chapter XI for REITs. Bankruptcy lawyers who are closely involved believe Chapter XI is tailor-made to solve the problems of REITs groaning under bank debt burdens. Harvey R. Miller, member of New York's Weil, Gotshal & Manges and attorney for Associated, made a strong case at the NAREIT Lawyer's Conference in Miami recently that "Chapter XI is a real tactical weapon that every trust with bank debt should consider." While some REIT managers expressed shock at such blunt talk, Miller pointed out these attributes of Chapter XI for REITs:

- a. The debtor remains in possession and continues to operate, unlike other bankruptcy proceedings.
- b. Only the debtor can propose a plan of arrangement with creditors, and the plan may only affect the rights of unsecured creditors (i.e., bank lenders to REITs.)
- c. The plan does not have to be "fair and equitable" as under other bankruptcy sections and the debtor may begin circulating a plan for approval by creditors without court consent. And there are provisions for dealing with recalcitrant banks, a problem with Fidelity.
- d. A plan may not be refused if it scales down the claims of creditors while preserving the rights of shareholders. Put another way, preserving shareholders' equity is a perfectly legitimate objective of Chapter XI petitioners.



Obviously there are disadvantages in Chapter XI: Holders of subordinate and convertible debt now being paid their interest by the banks would lose interest while a plan is being negotiated; administrative costs are heavy, running 25% to 33% of total assets in some cases (and could run to \$25-\$50 million for a major trust like Fidelity). And the trust may lose its NYSE listing.

The biggest drawback however is fear that the S.E.C. would petition to throw the company into Chapter X (a much longer court proceeding that might wind up in liquidation) if there is public debt involved. Since nearly all construction lending REITs have such debt, this has been a major deterrent. The Associated case is pivotal on this point because the S.E.C. has not moved to force Associated into Chapter X; now that Associated has filed its plan with creditors, more close observers are saying that the S.E.C. will not intervene if there's a strong management on hand moving as rapidly as possible to work out a plan with creditors. With its bankruptcy workload expected to increase 10-fold this year and next, the feeling is that S.E.C. will confine itself to outright fraud cases (like its recent filings against Gulf South Mortgage and its sponsors, Gulf South Corp., now in Chapter X, and Standard Life Corp., a life insurance holding company).

Under these conditions a Chapter XI filing like Fidelity is bullish for trust shares. And the filing is bullish for all distressed REITs because it may signal some more realistic treatment of other REITs by banks. The imponderable is how independent trustees will act: they legally control a trust and order Chapter filings. And Fidelity's trustees were motivated to protect shareholder equity.

The bankruptcy genie is out of the bottle -- and while that may be a cuss word among bankers, it's a fact. The situation is volatile and unpredictable. If a slow-motion domino effect develops this year, you could see more Chapter XI filings from among the trusts listed on page 3 plus these 12 trusts known to be negotiating revolving credits of about \$1.1 billion: American Century Mtg., an estimated \$73.7M; American Fletcher Mtg., \$20M; American Realty, \$22M; Barnett Mtg., \$175M; Barnett-Winston Inv., \$35M; CleveTrust Realty, \$54M; Colwell Mtg., \$99M; Cont. Ill. Realty, \$215M; First Wisconsin Mtg., \$175M; LMI Investors (formerly Larwin), \$145M; Mtg. Inv. of Washington, \$56.8M; Palomar Mtg., \$45M.

3. Bank profits are squarely on the line. The banks--especially the nine largest--have the enlightened self-interest of maintaining profits in heading off further REIT bankruptcies. Our tallies indicate that the nine largest banks shouldered the burden of keeping many REITs alive last year, so that the largest potential profit losses confront them. For instance, the Fidelity bankruptcy will cut Marine Midland Banks' net income by about 5%, or \$1.96 million after taxes in 1975. Marine held \$37.5 million of Fidelity debt. But the numbers are much larger for the big banks. We have tallied revolving credit commitments totaling \$2.44 billion for 19 REITs and find the nine largest banks have provided about 53½% of that amount, or \$1.3 billion as follows:

|                                |                             |                                |
|--------------------------------|-----------------------------|--------------------------------|
| BankAmer. Corp.....\$ 93.2M    | J.P.Morgan & Co.....\$69.7M | Chemical N.Y.Corp.....\$145.3M |
| Citicorp, N.Y.C..... 219.0     | Manufacturers Hanover. 99.6 | Cont. Ill. Corp..... 173.5     |
| Chase Manhattan Corp.... 245.5 | Bankers Trust Co..... 97.4  | First of Chicago Corp. 159.8   |

Thus big bank reactions to the Fidelity bankruptcy are crucial. The big banks have their money on the line and will succeed to the extent they can prevent themselves from being whipsawed by smaller banks breaking ranks on these large lines. In recent weeks NAREIT President Sylvan Cohen has been meeting with top executives of the 20 largest banks, assuring them of REIT cooperation in a most difficult environment. NAREIT Executive Vice President G. N. Buffington told the Reserve Bank Assn., composed of largest banks, on Feb. 3 that the Fidelity bankruptcy was a tragedy but repetition could be averted if top bank men took a direct hand in this year's round of negotiations and renegotiations. David Rockefeller of Chase and Walter Wriston of Citicorp were among the listeners. All this polite talk plus Fidelity's bankruptcy hopefully may get banks to face 1975's harsh realities.



## CONTINENTAL ILLINOIS PROPERTIES (8-3/8--NYSE-CIE) FY Oct. 31

| Quar. | Port.    | Port.Yld. | Non-earn.Inv. | Cash Flow | Div.   | -Price range- | -Yld.range- |
|-------|----------|-----------|---------------|-----------|--------|---------------|-------------|
| 1/74  | \$169.5M | 10.55%    | 0%            | \$0.40    | \$0.40 | \$18.38-10.38 | 15.4-8.7%   |
| 4/74  | 170.6    | 10.58     | 0             | 0.39      | 0.38   | 14.75-11.38   | 13.4-10.3   |
| 7/74  | 174.8    | 11.46     | 0             | 0.36      | 0.35   | 13.63- 9.63   | 14.5-10.3   |
| 10/74 | 178.2    | 11.83     | 0             | 0.00*     | 0.32   | 11.38- 7.75   | 16.5-11.3   |

\*After \$11 million addition to loss reserve.

Portfolio dynamics: The portfolio of this equity trust is 76% rental properties and 24% mortgages. In the past year the portfolio grew by 9% but no significant funding is expected in fiscal 1975. If long term rates come down, management would go into the long-term mortgage market. Holdings consist of 25 completed properties in eleven states. By project type these are 70% apartments, 27% shopping centers, 2% industrial and 1% office buildings. Apartments hold 5,791 units and were largely built in the past two years. Occupancy is good except for one project in Denver. There are four shopping centers. The other properties are an industrial building and two small office buildings. About 55% of properties are unmortgaged. The mtg. portfolio is 46% constr. and intermediate, 34% land & devel., 15% permanent and 5% GNMA mtg. In the fourth qtr. ended October the trust made a special addition of \$11 million to its loan loss reserve. The addition covers possible losses resulting from investment in English and Continental Investments Ltd., an English property company. The trust's investment consists of \$300,000 equity plus a guarantee on an unsecured note for \$9.3 million plus accrued interest. The trust received an extension to Mar. 19, 1975 for the note's purchase. If the trust does have to purchase the note, the interest payment on funds borrowed would lower earnings about \$0.06/sh. per qtr.

Financing: The trust is funded 57% by capital and 43% by non-convertible debt. Capital of \$100 million is all equity with 4.81 million shares. Debt of \$76.7 million is 55% in secured mtg. and 45% in short-term bank debt. Therefore about 20% of total funds float with market rates. Bank lines amount to \$53 million and since some \$75M of properties are mtg. free, CIE has financial flexibility. Sponsor: Continental Illinois Corp., parent of Continental Ill. Nat'l Bank, one of the ten largest banks. Continental Illinois Corp. also sponsors Continental Illinois Realty, a short-term mtg. trust. At July 31, 1975 about 25% of the mtg. loans of Continental Illinois Properties were loans in which Continental Illinois Realty was a participating lender. Results & outlook: The latest qtr. was hurt principally by the special addition to the loss reserve. Earnings may rebound in the Jan. qtr. and could rise gradually throughout the rest of fiscal 1975 if the European note is not funded. Occupancy at properties is good and even the weak spot is improving. Trust shares retain a "3" ranking. (VCK)

## NEW PLAN REALTY TRUST (12 1/4 --OTC-NPLNS) FY Jul. 31

| Quar. | Port.   | Port.Yld. | Non-earn.Inv. | Cash Flow | Div.   | -Price range- | -Yld.range- |
|-------|---------|-----------|---------------|-----------|--------|---------------|-------------|
| 1/74  | \$17.0M | 22.07%    | 0%            | \$0.50    | \$0.42 | \$15.88-12.25 | 13.7-10.6%  |
| 4/74  | 17.0    | 21.60     | 0             | 0.52      | 0.42   | 14.00-12.00   | 14.0-12.0   |
| 7/74  | 17.0    | 20.98     | 0             | 0.46      | 0.42   | 13.75-10.25   | 16.4-12.2   |
| 10/74 | 18.9    | 21.35     | 0             | 0.54      | 0.42   | 12.75- 9.75   | 17.2-13.2   |

Portfolio dynamics: The portfolio, which increased 10% in the past year, is 88% real estate owned and 12% mtg. The increase in the portfolio during the Oct. qtr. resulted from acquisition of a 75,000 sq.ft. shopping center in Middletown, N.J. The trust formerly held a mortgage on this property but when the owner had difficulties, the trust acquired it in lieu of foreclosure. There are no plans for new equity acquisitions. The portfolio consists of 23 properties which the trust owns or holds a leasehold interest or mortgage. Real estate owned by property type is 56% shopping centers, 28% industrial, 11% apartments and 5% other (unimproved land). The properties are in 7 states and Wash. D.C. There are four shopping centers with one million sq.ft. and all except the Middletown, N.J. acquisition are experiencing good occupancy (over 90%). The industrial portion consists of seven building with 1.3 million sq.ft. and occupancy here is also over 90%. Apartments are two buildings with 433 units and the occupancy rate is also



in excess of 90%. A bowling center and two unimproved parcels of land (58 acres) comprise the "other" category. The trust's properties have escalation clauses for the most part. Except for one property, tenants pay fuel bills. Shopping centers are well located near population centers.

**Financing:** Trust is funded 53% by non-convertible debt and 47% by capital. Capital of \$12.1 million is 44% equity with 665T shares, 48% in 8% convt. subor. debent. and 8% in 8½% subor. debent. Debt of \$13.8 million is all secured mtg. There is no bank debt. **Sponsor:** Independent. New Plan Advisory Corp. acts as the adviser to the trust while an independent firm, Dover Management Corp. manages the properties. Trustees and officers own about 33% of the shares. **Results & outlook:** For the three months ended Jan. 31, 1975 the trust maintained its \$0.42 dividend. (Dividends are paid monthly). Except for a slight drop in the July qtr. (due mainly to a fall off in rental income) earnings have risen steadily. Good property holdings and a conservative management account for this. Properties are well located for short travelling distances requiring minimal energy use. Lease clauses provide cost protection. Properties should provide steadily improving returns over time. Shares are thus "2" ranked for relative appeal. (VCK)

U. S. REALTY INVESTORS (4 7/8--NYSE-UTY) FY Dec. 31

| Quar. | Port.  | Port.Yld. | Non-earn.Inv. | Cash Flow | Div.   | --Price range-- | --Yld.Range-- |
|-------|--------|-----------|---------------|-----------|--------|-----------------|---------------|
| 12/73 | \$129M | 11.10%    | 0.7%          | \$0.28    | \$0.34 | \$14.50- 9.13   | 14.9- 9.4%    |
| 3/74  | 133    | 10.39     | 1.3           | 0.27      | 0.26   | 12.88-10.13     | 10.3- 8.1     |
| 6/74  | 135    | 10.80     | 4.7           | 0.18      | 0.20   | 11.88- 6.13     | 13.1- 6.7     |
| 9/74  | 131    | 11.24     | 4.0           | 0.19      | 0.20   | 7.13- 4.13      | 19.4-11.2     |

**Portfolio dynamics:** Fundings were little changed over the year, up 1%. They will be down, from the mtg. category, in the next twelve months. The short-term category was up 1%, equity holdings declined 2% (essentially depreciation) and a \$2.3M long-term loan was made. Hybrid status was maintained with 51% mortgages and 49% equity. The equity portion broken down by cost was 34% shopping centers, 32% motels, 28% office buildings, 3% apartments and 3% other. The mortgage portfolio as of Sept. broke down 53% construction loans, 14% land development, 15% wraparounds and 18% standing and permanent. The construction loans, \$35M, consist of about \$20M for condos in Fla., Md., Colo., Tenn. and Ill., many with takeouts. The other \$15M are for apartments, shopping centers and one motel; there are takeouts for \$5M. About 20% of funding floats with prime. Properties are located in Cal., Ga., Ill., Mich., O., Pa. and Tex. Mortgages are made in about 19 states and concentrated in Fla., Mich., O., Ill. and Nev. The Trust has two potentially significant joint ventures with Forest City Enterprises. The Denver apartment complex has remained affected by overbuilding in that area. Construction has not progressed beyond the first 256-unit phase. This phase is about 80% occupied and below breakeven. The 70-acre shopping center in Wheatfield, N.Y., part of a planned 1,500-acre varied development, is coming along nicely. Shopping center space already built has rented up and continued expansion is planned in 1975. Wheatfield provided minor cash flow in 1974. The trust's most dynamic potential project, Tower City, a \$250M downtown Cleveland program, is still in suspension after the city balked at paying an extra \$2M for street and utility repairs. A few problem loans have occurred but number well below average. Non-accruing loans were \$5.3M as of Sept. after including a Dec. bankruptcy. The publicized Hill Properties bankruptcy in Dallas left UTU holding a \$1.4M wraparound loan on three Dallas apartments. Two are profitable and the third is breakeven. The three apartments could be taken over and sold to cover the wrap if necessary but Hill is to present a bankruptcy plan shortly that may obviate this. The second problem is a \$1M energy plant serving an apartment complex in Kansas City, Mo. The project is only at breakeven due to a slowdown in the area but is only believed to be a matter of time for an essentially healthy project. The trust could get out with just a small loss now if it wants to avoid taking long term paper. The third problem is a \$1.2M participation in a strip shopping center in the Miami, Fla. area.



Some additional equity will probably be necessary to cover a small loss. The center has leased about 18,000 of 28,000 sf. The final \$1.3M is in four small loans. Additional problems will be listed with the Dec. year-end report but they are not believed serious. For example, the trust believes its financed Florida condos are having better luck than the rest and all have takeouts which it thinks will be lived up to. It expects to be out of these during 1975. Land loans are a weak category these days with delays being experienced but development is moving in most places and the trust thinks it will be all right.

Financing: Total funds of \$140M are 26% capital and 74% non-convertible debt. Capital of \$35.9M is 71% equity and 29% conv. debentures. Non-convertible debt of \$104M is 60% short-term and 40% secured mortgages. Thus about 45% of funds float with market rates. Bank debt will be reduced in coming months as the mortgage portfolio is reduced. Sponsor: Independent. Principals, from a Cleveland real estate law firm, own 216T shares, 6.4%. Results & outlook: The earnings and cash flow decline during 1974 resulted from sharply higher interest costs which could not be offset. Beyond the general squeeze endured by all trusts with mortgage lending activity, UTY had a high percentage of loans out with fixed limits. Rental properties maintained their flows. Even motel leases were well protected overall although the leasees' hotel business was spotty. If non-earnings do not increase much, this trust will be in good position to restore most earning and cash flow power. The "4" rated shares are undoubtedly cheap, 47% below depreciated book value, for the underlying value of properties and apparently decent mortgage loans. At the moment, however, market interest should be confined to speculators pending release of the 1974 audit. (BS)

PROPERTY CAPITAL TRUST (3-1/8--ASE-PCL) FY July 31

| Quar. | Port.   | Port.Yld. | Non-earn.Inv. | EPS Prim. | Div.   | -Price range- | -Yld.range- |
|-------|---------|-----------|---------------|-----------|--------|---------------|-------------|
| 1/74  | \$74.7M | 11.60%    | 0.0%          | \$0.36    | \$0.36 | \$18.00- 9.50 | 15.2 - 8.0% |
| 4/74  | 71.7    | 11.43     | 0.0           | 0.35      | 0.35   | 14.38-11.88   | 11.8 - 9.7  |
| 7/74  | 72.1    | 11.61     | 2.6           | 0.31      | 0.31   | 12.25- 6.75   | 18.4 -10.1  |
| 10/74 | 71.5    | 11.79     | 2.6           | 0.26      | 0.26   | 7.88- 4.50    | 23.1 -13.2  |

Portfolio dynamics: This subordinated land trust increased investments 6% during the past year, all going back to the Jan. qtr. No portfolio growth is expected this year. No new commitments are being issued and at Jan. 31, 1975 commitments were \$19 million. Of these commitments about 61% were for long-term mtg. where the average rate is 11½% and 39% were for land purchase leasebacks. At Oct. 31, the portfolio was 61% land leasebacks, 37% long-term mtg. and 2% short-term mtg. and other investments. Breakdown by property type was 46% apartments, 30% office bldg./parks, 15% shopping centers/retail, 6% hotels/motor inns and 3% industrial/other. Geographically investments were 31% in the far West, 23% Great Lakes, 19% mid-Atlantic, 9% Southwest, 8% Southeast, 7% Midwest/Mountain and 3% New England. No investments float with market rates. At Jan. 31, 1975 the trust had four loans for \$2.16 million on which interest was not being accrued, all on completed apartment projects. One loan for \$500T is a land leaseback on an apartment in Houston, Tex. where there is some return to the trust. The other three in Austin, Tex., Freemont, Calif. and Columbia, S.C. are all suffering from poor occupancy rates. During this Jan. qtr. the trust wrote-off two investments for \$531,000. Both are related to former Jack De Boer apartment projects. Property Capital had at one time investments of \$6.4 million in 14 De Boer projects. It has disposed of twelve at no loss, written off one and has one in non-accrual. This attests to some capabilities in solving problem situations.

Financing: Funds are 60% capital and 40% non-convertible debt. Capital of \$46.2 million is 61% equity with 2.07 million shares and 39% in 6½% senior notes. Debt of \$30.9 million is all short-term bank loans. Total bank lines were \$38 million with 8 banks at prime plus compensating balances. At the annual meeting in Nov. 1974 the shareholders approved the issuance of preferred shares. They are to be used for new investments. Sponsor: Independent. At Oct. 31, 1974, trustees and officers owned 64,625 shares or 3%. Results & outlook: High interest costs were the main reason for lower earnings in the past year. With the drop in prime rate, earnings and dividends should be higher. A 1% drop in the prime contributes about \$0.03 per quarter to this trust's earnings. Jan. qtr. earnings and dividends should rise moderately. Non-accruals are manageable and from past experience of this trust with problem loans should be resolved favorably. Shares are "3" ranked for improved earnings prospects. (VCK)